

## Message Text

CONFIDENTIAL

PAGE 01 TEL AV 04054 191439Z

42

ACTION NEA-16

INFO OCT-01 ISO-00 NEAE-00 SS-20 PM-07 SP-03 L-03 INR-11

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P 190942Z JUL 74

FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC PRIORITY 3194

C O N F I D E N T I A L TEL AVIV 4054

STADIS////////////////////////////////////

E.O. 11652: GDS

TAGS: OVIP (SIMON, WILLIAM E.), EAID, IS

SUBJ: SIMON VISIT: MEETING WITH BANK OF

ISRAEL GOVERNOR SANBAR

1. FOLLOWING IS UNCLEARED REPORT OF CONVERSATION AND  
IS SUBJECT TO CHANGE AFTER REVIEW BY SIMON PARTY.

2. SUMMARY: SANBAR DESCRIBED DEVELOPMENTS IN MONETARY AND  
ECONOMIC POLICY FIELD INCLUDING RECENT MEASURES TO  
COMBAT INFLATION. BOI'S SEIZURE OF ISRAEL-BRITISH BANK  
WAS ALSO DISCUSSED. END SUMMARY.

3. DURING INITIAL EXCHANGE OF PLEASANTRIES SANBAR SAID  
HE UNDERSTOOD THAT THE SECRETARY HAD ALREADY BECOME AN  
EXPERT ON THE ISRAELI ECONOMY. SECRETARY REPLIED IN  
SIMILAR VEIN THAT HIS KNOWLEDGE EXTENDED ONLY TO ISRAEL'S  
ECONOMIC PROBLEMS RPT PROBLEMS. SANBAR LED OFF BY DESCRIBING  
MONETARY POLICY OVER PAST 12 MONTHS AS VERY TOUGH, RESULTING IN  
TIGHT MONEY AND HIGH INTEREST RATES. REE MARKET RATES  
AVERAGE ABOUT 20 PERCENT, BUT GO UP TO 30 PERCENT IN CERTAIN  
MARGINAL  
AREAS. HOWEVER, " DIRECTED CREDIT," PRIMARILY FOR  
EXPORTS, AGRICULTURE AND CERTAIN HOUSING, PROVIDES  
MUCH LOWER INTEREST RATES. EXPORT CREDIT, FOR  
EXAMPLE, IS EXTENDED AT 6 PERCENT INTEREST.

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PAGE 02 TEL AV 04054 191439Z

4. IN RESPONSE TO SECRETARY'S QUESTION ABOUT LINKAGE OF LOANS TO COST-OF-LIVING INDEX, SANBAR SAID THAT LINKAGE IS VITAL TO SUCCESS OF GOVERNMENT'S PROGRAM TO ENCOURAGE SAVINGS. INCOME FROM INDEXED BONDS AND DEBETURES IS FREE FROM TAX AND THUS THE MAIN REASON THAT FAMILY SAVINGS ARE AVERAGING 25 PERCENT OF DISPOSABLE INCOME.

5. TURNING TO ECONOMIC POLICY, SANBAR SAID THAT THIS TIME BOI AND MINISTRY OF FINANCE WERE ABLE TO AGREE ON RECENT PACKAGE OF ANTI-INFLATION MEASURES. ONLY DIFFERENCE WAS THAT FINANCE MINISTRY SAID PACKAGE WAS MAXIMUM POSSIBLE WHILE BOI SAID IT WAS MINIMUM IN TERMS OF WHAT WAS NEEDED.

6. WHEN ASKED BY SECRETARY WHAT LEVEL OF INFLATION HE WOULD LIKE TO ACHIEVE, SANBAR REPLIED THAT IDEALLY HE WOULD LIKE TO SEE INFLATION IN ISRAEL NO HIGHER THAT THAT PREVAILING IN WESTERN EUROPE, WHICH WAS ISRAEL'S MAJOR TRADING PARTNER. THIS YEAR, HOWEVER, THE MOST THEY HOPED FOR WAS TO HOLD PRICE RISES TO SOME 30 TO 35 PERCENT. THIS WOULD BE VERY DIFFICULT SINCE PRICES HAD ALREADY RISEN 22 PERCENT OVER THE FIRST SIX MONTHS.

7. WHEN ASKED ABOUT EARLIER STATEMENTS BY ISRAELI MINISTERS THAT STANDARD OF LIVING FOR ISRAELIS WOULD NOT BE PERMITTED TO RISE OVER THE NEXT FEW YEARS, SANBAR SAID THAT THIS WILL BE VERY DIFFICULT POLITICALLY AND HE PERSONALLY IS NOT SURE THAT IT CAN BE ACHIEVED. HE WISHED TO STRESS, HOWEVER, THAT EVERY RESONABLE EFFORT WOULD BE MADE TO REDUCE INFLATION AND TO REDUCE ISRAEL'S DEPENDENCE ON OUTSIDE ASSISTANCE. ONLY WAY TO ACHIEVE LATTER OBJECTIVE, HE SAID, WAS THROUGH RAPID ECONOMIC GROWTH AND THIS WOULD REQUIRE CONTINUED DIVERSION OF SCARCE RESOURCES TO SELECTED SECTORS.

8. AT END OF DISCUSSION, SECRETARY ASKED ABOUT LATES DEVELOPMENTS WITH REGARD TO ISRAEL-BRITISH BANK CASE AND SANBAR ASKED BANK EXAMINER HETH TO GIVE STATE OF PLAY. HETH SAID THAT BOI HAD SEIZED BANK AND HAD DECLARED 20-DAY MORATORIUM ON PAYMENTS WHICH WILL END

CONFIDENTIAL

PAGE 03 TEL AV 04054 191439Z

ON JULY 29. MORE TIME WAS NEEDED TO GATHER INFORMATION ON BANK'S EXTENSIVE FOREIGN OPERATIONS. BOI HAD NOT BEEN OBLIGATED TO TAKE OVER BANK AND EXTEND GUARANTEE TO CREDITORS (EXCEPTING MANAGEMENT AND OWNERS) BUT HAD DONE SO TO PROTECT GOOD NAME OF ISRAELI BANKS. HE ADDED THAT BOI HAS DECLINED RESPONSIBILITY FOR IBB SUBSIDIARY IN UK SINCE IT WAS NOT UNDER CONTROL OF BOI. KEATING

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## Message Attributes

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**Current Classification:** UNCLASSIFIED  
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**Control Number:** n/a  
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**Draft Date:** 19 JUL 1974  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
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**Disposition Approved on Date:**  
**Disposition Authority:** GarlanWA  
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**Disposition Comment:** 25 YEAR REVIEW  
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